

Attachment A to City of Trinidad Resolution 2017-10

CITY OF TRINIDAD

FISCAL RESERVES POLICY

POLICY PURPOSE:

The purpose of this Policy is to protect the long term fiscal health of the City of Trinidad by establishing designated reserve funds, setting target levels for those funds, and providing clear guidance on their use and maintenance.

BACKGROUND:

Reserves are a critical part of how cities plan for and respond to fiscal challenges, infrastructure replacement, and cash flow management. Fiscal challenges can include natural disasters, other unexpected costs or reductions in revenue, and economic downturns. Reserves also provide a framework to plan and save for the maintenance and replacement of the City's infrastructure and capital assets. Reserves are critical to managing cash flow. Collectively, reserves provide the City with time and flexibility to respond to financial challenges without disrupting the provision of essential City services.

Reserves fall into two general categories: Restricted and Designated. Restricted reserves are already committed to a specific purpose due to financial, accounting, or legal restrictions, and are not available for other use. Designated reserves are established by Council policy for an intended purpose and are available for use per Council direction according to that policy.

Our annual audit follows the Governmental Accounting Standards Board (GASB) Statement 54 Fund Reporting and Governmental Fund Type Definitions, which require that all fund balances be classified on the governmental funds balance sheet as follows:

Restricted Reserves:

- Non-spendable: - amounts that cannot be spent because they are either (a) legally or contractually required to be maintained intact or (b) not in spendable form such as long-term notes receivable.
- Restricted: -amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Designated Reserves:

- Committed - amounts that can be used only for the specific purposes determined by a formal action of the City Council, to establish, modify or rescind a fund balance commitment.
- Assigned - amounts that are constrained by the government's intent to be used for specific purposes but do not meet the criteria to be classified as restricted or committed, as determined by a formal action or policy of the City Council or its appointed official.
- Unassigned - the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

GUIDING PRINCIPLES:

Following sound financial practices and adhering to the Government Finance Officers' of American (GFOA) recommendations, the City's designated reserves include reserves for known and unknown contingencies, which take into consideration the:

- Diversity of revenue base
- Cyclical nature of revenue
- Changes in community priorities
- Frequency of budget surpluses/deficits
- Cash flow management practices
- Nature of financial risks to the City
- Budget size relative to potential risks.

POLICY:

Reserve Funds

The City will set aside funds into designated reserves to address unforeseen emergencies or disasters, significant changes in the economic environment, and key infrastructure and capital projects.

General Fund designated reserves shall include an Emergency Reserve Fund, Budget Stabilization Reserve Fund, and Capital and Special Projects Reserve Funds.

Enterprise Reserve Funds shall include the Water Utility Reserve Fund and the Cemetery Reserve Fund.

Key General Fund Designated Reserves

Emergency Reserve. Funds reserved under this category shall be used to mitigate costs associated with unforeseen emergencies or fiscal crises, including natural disasters or catastrophic events. Other uses of this fund could include significant one-time expenses due to litigation, or legal or insurance settlements.

In the case of a natural disaster or other emergency that requires the immediate expenditure of City resources beyond those provided for in the annual budget, the City Manager or designee shall have authority to approve Emergency Reserve appropriations. The City Manager or designee shall notify the Council immediately upon such use, and then present to the City Council within two weeks of such action a budget amendment confirming the nature of the emergency and authorizing the appropriation of reserve funds.

Budget Stabilization Reserve. Funds reserved under this category shall be used to mitigate, should they occur, annual budget revenue shortfalls (actual revenues less than projected revenues) due to changes in the economic environment and/or one-time expenditures that will result in future efficiencies and/or budgetary savings. Examples of "economic triggers" and one-time uses include, but are not limited to:

- Significant decrease in property, sales, or transient occupancy tax, or other economically sensitive revenues;
- Loss of businesses considered to be significant sales tax generators;
- Reductions in revenue due to actions by the state/federal government;
- Workflow/technical system improvements to reduce ongoing, personnel costs and enhance customer service;
- One-time maintenance of service levels due to significant economic/budget constraints; and
- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

Capital and Special Projects Reserve. Funds reserved under this category are designated for key infrastructure and capital/special projects as identified in the current City Capital Improvement Plan. The City Council shall designate funds towards specific capital and special projects in relation to their priority, expected cost, and date of replacement. These shall include a Fire Department Equipment Reserve, a Town Hall Reserve, a Streets and Roads Reserve, an ADA compliance Reserve, and other Reserves as designated by the Council.

Reserve Target Levels

The target level for the Emergency Reserve and the Budget Stabilization Reserve shall be based on a percentage of the current year General Fund annual operating expenditures (minus one-time expenditures).

- The Emergency Reserve target shall be set at 75% of the current year GF operating expenditures.
- The Budget Stabilization Reserve target shall be set at 75% of the current year GF operating expenditures.
- The General Fund Capital and Special Project Reserves target shall be set at a minimum of 50% of the current year GF operating expenditures, with specific targets for individual projects or assets to be adjusted in accordance with the current Council approved Capital Improvement Plan.
- The Water Fund Reserve target shall be set at a minimum of 50% of the current year Water Fund operating expenditures, and will be managed in coordination with the City's current Capital Improvement Plan to provide for the long term maintenance and replacement of the Water Plant and Water Distribution System.

The targets for Capital and Special Project Reserves, and Water Fund reserves, shall depend on the specific priority, expected cost, and date of replacement or implementation of the individual projects and assets. Individual targets shall reflect the depreciated value of city assets so that the reserve can fund their replacement when needed. For special projects, the target shall be set so that the reserve fund equals the project cost at the planned implementation date. This Reserve, and specific targets, shall be managed in coordination with the City's current Capital Improvement Plan.

Reserve Utilization and Revisions to this Policy

The General Fund Reserve Policy and the status of Reserve Funds shall be reviewed at least biannually by the City Council as part of the adoption of the annual audit, and the annual operating budget review and adoption process.

Appropriations of Reserve Funds shall require formal Council authorization, either through the adopted annual budget or through separate approval, with the limited exception of the Emergency Reserve Fund described above.

Replenishment of Unreserved Fund Balance

When any reserve fund falls below its target thresholds, the City Council will develop a 1 to 5 year reserve replenishment plan to meet the minimum thresholds. The Capital Improvement Plan shall guide appropriate individual targets for the Capital Assets Reserve Funds.

Excess Fund Balance

After the close of each fiscal year, the City reports on the audited year-end budgetary results and fund balances. The acceptance of the final audit shall include a report on and discussion of current Designated Reserve funding levels. Where all Emergency and Budget Stabilization Reserve targets are met, the General Fund balance exceeding the level required by the policy shall be allocated to the Capital and Special Projects Reserve Funds.

Surplus Water Funds at the close of each fiscal year shall be designated to the Water Fund Reserve.